

No. 8/4/DPM

Jakarta, February 7, 2006

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS

Concerning: Secondary Market Trading of Bank Indonesia Certificates
Under Repurchase Agreement (Repo) with Bank Indonesia

In order to maintain liquidity in interbank money market, it is deemed necessary to reformulate provisions concerning SBI transaction under Repo with Bank Indonesia as implementation regulations of Bank Indonesia Regulation Number 4/9/PBI/2002 dated November 18, 2002 concerning Open Market Operation (State Gazette of the Republic of Indonesia of 2002 Number 126, Supplement to the State Gazette of the Republic of Indonesia Number 4243), as amended for the last time by Bank Indonesia Regulation Number 7/30/PBI/2005 dated September 13, 2005 (State Gazette of the republic of Indonesia of 2005 Number 84, Supplement to the State Gazette of the Republic of Indonesia Number 4533) and Bank Indonesia Regulation Number 4/10/PBI/2002 dated November 18 2002 concerning Bank Indonesia Certificates (State Gazette of the Republic of Indonesia of 2002 Number 127, Supplement to the State Gazette of the Republic of Indonesia Number 4244), as amended for the last time by Bank Indonesia Regulation Number 6/5/PBI/2004 dated February 16, 2004 (State Gazette of the Republic of Indonesia

of 2004 ...

of 2004 Number 18, Supplement to the State Gazette of the Republic of Indonesia Number 4366) as follows:

I. GENERAL PROVISIONS

The terminology used in this Circular Letter has the following meanings:

1. Bank is a commercial bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, conducting conventional business operations.
2. Open Market Operation, hereinafter referred to as OMO is transactional activities in money market conducted by Bank Indonesia with Bank and other parties for the purpose of monetary control.
3. Bank Indonesia Certificates, hereinafter referred to as SBIs are securities in Rupiah denomination issued by Bank Indonesia as a short-term debt instrument.
4. BI-Rate is policy interest having 1 (one) month tenor stipulated by Bank Indonesia to the public as monetary policy sign for certain period of time.
5. Bank Indonesia – Real Time Gross Settlement System hereinafter referred to as BI-RTGS System is an electronic fund transfer system in rupiah currency among members of BI-RTGS System with settlement conducted in real time on individual per transaction basis.
6. Bank Indonesia – Scripless Securities Settlement System hereinafter referred to as BI-SSSS is an electronic facility for conducting transaction with Bank Indonesia including the administration of these transactions and securities

administration ...

administration that seamlessly connected to Members, the Operator and BI-RTGS System.

7. SBI Transactions conducted under Repurchase Agreement hereinafter referred to as SBI under Repo is a transaction of SBI for conditional sale conducted by Bank under obligation for repurchase at an agreed term and price.
8. SBI Securities Account is securities account used to record ownership of SBIs in the Central Registry.
9. Securities Settlement of SBIs is the ownership transfer of Securities from holders of SBI account registered in the BI-SSSS for the purpose of conducting settlement of SBI transactions through BI-SSSS.
10. Fund Settlement is the transfer of fund between holders of Rupiah demand deposit account at Bank Indonesia through BI-RTGS System for the purpose of settlement of SBI transactions through BI-SSSS.
11. Delivery Versus Payment hereinafter referred to as DVP is settlement of Securities transactions by means of Securities Settlement of SBIs through BI-SSSS conducted simultaneously with Funds Settlement at Bank Indonesia through BI-RTGS System.
12. Money Market Information Center hereinafter referred to as PIPU is part of Daily Report of Commercial Banks published to provide information concerning but not limited to money market in Rupiahs and foreign currency and other sources of information related to the money market.

II. REQUIREMENTS...

II. REQUIREMENTS FOR TRANSACTIONS OF BI UNDER REPO WITH BANK INDONESIA

1. SBIs eligible for trading under Repo to Bank Indonesia consists of:
 - a. SBIs obtained by a Bank recorded in an active account of the Bank in BI-SSSS facility; and
 - b. Shall have a remaining term of no less than 2 (two) working days on the maturity date of SBI transactions.
2. The SBIs amount held by the Bank eligible to be sold under Repo to Bank Indonesia shall be no more than 50% (fifty percent) of total holdings of SBI recorded in the active account of the Bank in BI-SSSS facility 1 (one) working day prior to the placement for transactions of SBIs under Repo (T-1).
3. The term of SBI under Repo shall be 1 (one) day. In the case that a transaction is placed 1 (one) day prior to a holiday, the maturity date for SBI under Repo shall be the following working day.
4. The discount rate for SBIs under Repo shall be set according to the applicable BI-Rate on the day of transaction plus 300 (three hundred) basis points.
5. The number of days for SBI under Repo discount shall be based on calendar days.
6. Settlement for SBI under Repo shall be conducted on the day of the transaction (same-day settlement) using the DVP mechanism.

7. Any Banks ...

7. Any Banks placing SBI under Repo is required to hold sufficient balance in the SBI Securities Account at the Central Registry for the purpose of SBI Securities Settlement upon settlement of the sale of SBIs under Repo.
8. Banks are required to hold sufficient balance in the Demand Deposit Account at Bank Indonesia for the purpose of Fund Settlement upon settlement of the repurchase of SBIs under Repo.
9. The Bank shall not be under sanction of suspension or permanent closure as member of the BI-SSSS.

III. PROCEDURE FOR SBI UNDER REPO WITH BANK INDONESIA

1. Bank Indonesia shall conduct transactions for SBIs under Repo with a non-auction mechanism on every working day.
2. Bank Indonesia – the Directorate for Monetary Management (DPM) c.q. Monetary Operation Bureau (BOPM) shall announce the applicable discount rate for SBIs under Repo through BI-SSSS and/or Money Market Information Center (PIPU) in advance of the opening of window time for SBIs under Repo transaction (T+0).
3. Window time for placement of SBI under Repo as referred to in number 2 shall be set at 15.00 hours through 17.00 hours local time in Jakarta (WIB).
4. During the window time of SBI under Repo, Banks may place SBI under Repo by means of direct access through BI-SSSS stating among others nominal amount of the transaction, SBI series to be traded under Repo and term of Repo. Example

of calculation ...

of calculation for cash value of SBI transaction under Repo shall be made available in the appendix.

5. If considered necessary, Bank Indonesia shall close or change the window time for SBI transaction under Repo.
6. Closing or change of window time as referred to in number 5 shall be announced no later than 1 (one) working day in advance through the BI-SSSS and/or Money Market Information Center (PIPU) and/or other facilities stipulated by Bank Indonesia.

IV. PROCEDURE FOR SETTLEMENT OF SBI UNDER REPO WITH BANK INDONESIA

A. Settlement of Sale of SBIs (First Leg)

1. Bank Indonesia shall conduct settlement of sale of SBI under Repo sold by a Bank through BI-SSSS by means of gross to gross after the cut off warning time of BI-SSSS.
2. If the amount of SBI series hold by the Bank is considered insufficient for each of the placement of SBI under Repo in the SBI Securities Account, BI-SSSS shall automatically cancel the settlement of SBI sale.
3. Cancellation of sale of SBI under Repo as referred to in number 2 shall render the Bank liable to sanction of OMO.

B. Settlement of Repurchase of SBI (Second Leg)

1. Bank Indonesia shall conduct repurchase of SBI by the Bank through BI-SSSS.

2. If the balance...

2. If the balance in the Rupiah demand deposit account of the Bank at Bank Indonesia is insufficient for the settlement of repurchase of SBIs under Repo at cut off warning of BI-RTGS System, the system shall automatically cancel the repurchase of SBI under Repo.
3. Cancellation of repurchase of SBIs as referred to in number 2 shall render the Bank liable to sanction of OMO and the SBI series not repurchased by the Bank shall be automatically redeemed prior to maturity (early redemption).

V. SANCTIONS

1. In the event of cancellation of sale or repurchase of SBIs under Repo as referred to in point IV.A.2 and point IV.B.2., the Bank shall be liable to the following sanctions of OMO:
 - a. written warning, with a copy sent to:
 - 1) the relevant Directorate of Bank Supervision, in the case that the sanction is imposed on a Bank having its head office in the working area of Bank Indonesia Head Office (KPBI); or
 - 2) the bank Supervision Team at the local Bank Indonesia Regional Office, if the sanction is imposed on a Bank having a head office in the working area of that Bank Indonesia Regional Office, and
 - b. a financial penalty of 1⁰/₀₀ (zero point one percent) of the nominal of the cancelled settlement or not more than Rp1.000.000.000,00 (one billion Rupiahs), and

c. Temporary ...

- c. Temporary suspension from participation in OMO for 5 (five) working days if the Bank is issued written warning for cancellation of OMO transactional activities for the third time within a period of 6 (six) months.
2. The written warning as referred to in item 1.a. and notice of temporary cessation in OMO activities as referred to in item 1.c. shall be conducted 1(one) working day after cancellation of the transaction.
3. The financial penalty referred to in point 1.bc shall be performed by debiting the Rupiah demand deposit account of the Bank at Bank Indonesia at 1 (one) working day after cancellation of the transaction.

The provisions in this Circular Letter shall come into force on February 7, 2006.

For the public to be informed, it is ordered that this Circular Letter be promulgated in the State Gazette of the Republic of Indonesia.

Kindly be informed.

BANK INDONESIA,

BUDI MULYA

DIRECTOR OF MONETARY MANAGEMENT